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SUBJECT: AMBASSADOR WARNS NICARAGUAN OFFICIALS AGAIN, RHETORIC HURTS INVESTMENT

REF: A) MANAGUA 324; B) 08 MANAGUA 1374

Summary

1. (SBU) On June 3, 2008, the Ambassador hosted lunch for Alvaro Baltodano, Presidential Delegate for Investment Promotion, and other members of his investment team. Baltodano recognized the important role the Pathways to Prosperity initiative plays in providing a framework for regional cooperation, but voiced his concern that it lacks substance on trade and investment issues. The Ambassador warned Baltodano that President Ortega's harsh criticism of the United States and free markets would continue to make it difficult to attract U.S. investment. Baltodano, while cognizant of the difficulties Ortega's rhetoric creates, said his task is now to work within political constraints to do what is best for Nicaragua. End summary.

Ambassador Hosts Nicaragua's Investment Team

2. (SBU) On June 3, 2008, the Ambassador hosted lunch for retired General Alvaro Baltodano, Presidential Delegate for Investment Promotion; Javier Chamorro, Executive Director of investment promotion agency ProNicaragua; and Alfredo Coronel, Executive Director of National Free Trade Zone Commission (CNZF). [Note: Javier Chamorro is the son of Maria Rubiales de Chamorro, Nicaragua's Permanent Representative to the United Nations since 2007 and during the 1980s. Alfredo Coronel is the nephew of Manuel Coronel Kautz, Vice Minister of Foreign Relations and outspoken critic of "U.S. imperialism." End note.]

Pathways to Prosperity

3. (SBU) Baltodano -- who represented Nicaragua at the Pathways to Prosperity Ministerial Meeting held in San Salvador on May 31, 2008 -- praised Secretary Clinton's remarks delivered there. Referring to them, he suggested that the United States has an opportunity to bring about profound changes in the way it relates to other countries in the region. At the same time, he expressed frustration that the meeting and resulting declaration failed to address the importance of infrastructure financing for developing countries.

4. (SBU) While recognizing the important role Pathways plays in providing a framework for regional cooperation, Baltodano said he is concerned that unless the initiative incorporates substantive commitments on issues such as trade and investment -- beyond simply committing to avoid protectionist measures -- it is doomed to failure. In particular, he said it could be a useful mechanism to

deal with rules of origin, including Nicaragua's efforts to take advantage of third-country fabric provisions included in CAFTA-DR (Ref B).

Investment Climate

¶5. (SBU) The Ambassador congratulated Baltodano on the World Bank naming ProNicaragua as one of the top investment promotion agencies in the region. Nonetheless, he warned Baltodano that President Ortega's harsh criticism of the United States and free markets continue to have a negative impact on Nicaragua's ability to attract new investment. Attracting new investment would remain a challenge as long as Ortega continued to decry capitalism and call for a new, socialist economic system.

¶6. (SBU) Baltodano acknowledged that President Ortega's rhetoric is having an impact, but he countered that U.S. investors with ongoing operations are generally pleased with the treatment afforded to them by Nicaraguan officials. Baltodano said his focus is on practical issues such as labor relations and customs administration for businesses located in free trade zones. [Note: Sources suggest that Baltodano has been constructive on these issues, see Ref A. End note.]

¶7. (SBU) The Ambassador referred to U.S. investors' concerns with the recently passed Low Income Housing Law and pending Coastal Law legislation, both of which include provisions that weaken property rights. ProNicaragua's Javier Chamorro responded that opposition politicians have spread misinformation about these legislative initiatives. He defended the Coastal Law in particular, saying that it includes zoning restrictions but is in no way confiscatory.

¶8. (SBU) The Ambassador noted that the political situation also hindered investment. In particular, the government's efforts to restrict the activities of nongovernment organizations sent the wrong signal on Nicaragua's receptiveness to international engagement. The stalemate in the National Assembly, he added, meant that legislative initiatives to improve competitiveness have languished. Baltodano agreed that these political issues have a negative impact on the investment climate. However, he claimed to no longer have any interest in politics. He concluded that his task is now to work within political constraints to do what is best for Nicaragua.

Comment

¶9. (SBU) Baltodano's indifference to the political issues undermining his efforts to attract investment appears disingenuous to us. We believe Baltodano is genuinely concerned, but he no longer has the influence he once had with President Ortega -- as he did, for example, when he ran his 2001 presidential campaign. With Ortega and First Lady Murillo constantly undermining efforts to attract investment, Baltodano and his team have an uphill battle, particularly in attracting U.S. investors. We are not aware of any significant new U.S. investment since 2007 when Cone Denim built a now-shuttered textile plant.

CALLAHAN